

Background

Due to the State's serious fiscal situation and the negative impact on the State's ability to sell bonds, on December 17, 2008, the Pooled Money Investment Board (PMIB) froze all funding for General Obligation Bond programs, including programs funded under Proposition 84, to preserve necessary cash resources to fund the day-to-day operational needs of the state for the balance of the fiscal year. As you know, Proposition 84 is the sole funding source for projects authorized by the Sierra Nevada Conservancy (SNC) at this time.

Based on the PMIB's action, the Department of Finance instructed the SNC and other State funding agencies to take the following actions, effective December 18, 2008:

1. Suspend all grant-funded projects;
2. Suspend all payments on existing grants, including those that have received advances and those with invoices in process, until further notice;
3. Stop authorizing any new grants, including those awarded at the December 2008 Board meeting.

SNC staff sent an immediate email to all grantees on December 19th warning them of the need to stop work, followed by a second email and in some cases phone calls later in the day until we were certain that all grantees were alerted to the situation. We then notified the organizations whose grants were authorized at the December SNC Board meeting, letting them know that we would be unable to execute their grant agreements until further notice due to the freeze. We have been in contact with grantees and others since then, letting people know about the January PMIB meeting and offering information on other potential funding sources not affected by the state freeze.

Current Status

The PMIB's actions have had the following impacts:

Impacts to Existing Grantees

All grantees have had to stop work on their projects until further notice. The SNC is not currently able to pay any invoices that weren't already paid by close of business December 17, 2008. This includes approximately \$850,000 in invoices that the SNC has received for work already completed by grantees and their contractors prior to the 17th.

Impacts to Projects Authorized at December 4, 2008, SNC Board Meeting

For those projects authorized by the Board in December, we are not able to finalize grant agreements and authorize work until the freeze is lifted. We are continuing to process agreements, including sending them to grantees for signature, so that we will be in a position to move quickly if/when the suspension

is lifted. We will be working with grantees to add language to these and all future grant agreements that explicitly addresses possible suspension/termination as a result of future such actions by the State.

Impacts to 2008-09 Competitive Grants

This year's Competitive Grants were originally planned to be acted upon by the Board at this meeting. However, due to the freeze, these grants are not being considered. SNC staff will be prepared to bring recommendations forward at the first opportunity once the freeze has been lifted.

Impacts to Potential Future Applicants

The SNC has continued to accept applications for through February 27th for our second round of applications for the 2008-09 Strategic Opportunity Grants (SOGs). Staff will process applications received so that when this situation gets resolved we will be ready to recommend grants as soon as possible.

The Pooled Money Investment Board met again on January 16. That meeting did not result in any changes other than some clarifications regarding the potential timing for lifting the freeze. At that meeting the PMIB suggested that if a reasonable budget solution were reached by February 1st, it would be April or May at the earliest before any bond funds would be available, but more likely summer or beyond, especially for natural resource bonds. The PMIB did take action to ensure that staff funded through bond funds will be paid.

The impacts of the freeze are being felt by all grantees, with significant adverse consequences to many, including staff layoffs, office and program shutdowns and, in one case, even the threat of a lawsuit against a grantee by a contractor for failure to pay for project work already completed. There is an obvious concern about the potential long-term effects the freeze may have on some of our non-profit partners' ability to stay in business. If the freeze goes on beyond the summer, the Sierra Nevada as a Region is likely to experience a serious decline in capacity to achieve important conservation and community sustainability goals, as many non-profits and local government programs will be adversely impacted.

Next Steps

Regarding existing grants, SNC staff is currently working with grantees to address timing issues with existing grant agreements that are due to expire during the freeze period. In addition, we are actively researching other funding sources that grantees may be able to use and distributing that funding information on a regular basis.

We are also continuing to process agreements for projects authorized for funding at the December 2008 Board meeting. These will not be fully executed until the freeze is lifted, and no activity can be authorized for these projects until then.

As mentioned above, the 2008-09 Competitive Grants were to have been considered by the Board at this meeting. Based on consultation with Chairman Chrisman and Vice Chair Wilensky, it was agreed that the actions ordered by the Department of Finance would prohibit the Board from taking action on these grants. Staff is prepared to bring forth recommendations as soon as the freeze is suspended. Similarly, we agreed, with concurrence of Chairman Chrisman and Vice Chair Wilensky, to continue accepting and processing the SOG Round 2 applications with the intent of being prepared to recommend projects to the Board as soon as possible once the fiscal situation is resolved.

Finally, in order to preserve as much flexibility as possible to expend this fiscal year's Proposition 84 funds once the freeze is lifted, staff recommends that the Board extend the active life of all applications received this fiscal year to December 31, 2009 (instead of June 30, 2009). That would allow us to act expeditiously on these applications after the current fiscal year ends.

Staff will continue to keep the Board updated on new developments relating to the availability of bond funds for our program.

Recommendations

Staff recommends that the Board extend the “expiration date” of all grant applications received this year from June 30, 2009 to December 31, 2009 and that staff communicate this information to all applicants with pending applications.